

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-03 FRB-01

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-01 OPIC-02 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 NSC-07 SS-14 STR-01

CEA-01 AGR-03 SWF-01 L-02 H-01 PA-01 PRS-01 USIA-04

DRC-01 /077 W

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P R 102240(OCT 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 8327

INFO AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMCONGEN GUAYAQUIL

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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E.T. 116)05 N/A

TAGS: ETRD CS

SUBJ: COSTA RICA WILL ASK 50-CENT BANANA TAX

1. SUMMARY: COSTA RICA HAS DECIDED TO INCREASE ITS BANANA TAX TO FIFTY CENTS PER BOX AND TO REQUIRE A PAYMENT OF \$2.20 PER BOX FOR BANANAS PRODUCED BY INDEPENDENT GROWERS. THE EMBASSY ASSUMES THAT THE BANANA COMPANIES HERE WILL BE UNHAPPY WITH THIS PROPOSAL BUT PROBABLY WILL BE ABLE TO LIVE WITH IT. THE GOCR WILL DISCUSS THE PROPOSAL WITH UNITED BRANDS NEXT WEEK. END SUMMARY.

2. CHARGE AND DEPARTMENT OFFICER SULLIVAN (ARA/CEN) CALLED
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ON MINISTER OF ECONOMY, INDUSTRY AND COMTLERCE JORGE SANCHEZ

OCTOBER 10 MAINLY TO DISCUSS STATUS OF NEGOTIATIONS ON BANANA PROBLEM.

3. SANCHEZ CONFIRMED THAT THE GOCR HAS DEVELOPED A NEW BANANA TAX FORMULA WHICH HE EXPECTS TO PRESENT TO UNITED BRANDS NEXT WEEK. THE NEW FORMULA WILL PROVIDE FOR A FIFTY-CENT BANANA TAX AND WILL REQUIRE PAYMENTS OF \$2.20 PER BOX TO INDEPENDENT BANANA PRODUCERS. THE FORMULA, LIKE EARLIER VERSIONS, WILL ALSO CALL UPON THE BANANA COMPANIES TO ASSIST IN BRINGING INTO PRODUCTIVE USE LANDS WHICH ARE PRESENTLY IDLE.

4. SANCHEZ SAID THAT HE WILL PRESENT NEW FORMULA TO UNITED BRANDS. HE DOES NOT EXPECT TO HAVE A CONCURRENT SESSION WITH STANDARD FRUIT, AS THEIR ONLY REPLY TO PREVIOUS EFFORTS TO NEGOTIATE HAS BEEN THAT THEY WILL ACCEPT FORMULA UNITED ACCEPTS.

5. SANCHEZ EXPLAINED THE GOCR DECISION TO ABANDON ITS PREVIOUS PROPOSAL (FOR A GRADUAL ESCALATION TO FIFTY CENTS OVER A TWO-YEAR PERIOD) IN TERMS OF CHANGING CIRCUMSTANCES, NOTABLY HURRICANE FIFI. SANCHEZ SAID THAT IN HIS LAST NEGOTIATION WITH UNITED SEVERAL WEEKS AGO THE COMPANY HAD DECLINED TO ACCEPT HIS PROPOSAL FOR A TAX

THAT WOULD BE 25 THIS YEAR, 40 CENTS NEXT YEAR, AND 50 CENTS IN 1976. INSTEAD, THE COMPANY HAD COUNTERED WITH AN OFFER OF THE HONDURAN FORMULA (A FIVE-YEAR ESCALATION TO 50 CENTS) WITH A PROVISION FOR REVIEW IN MID-75 WITH A VIEW TO DETERMINING WHETHER WORLD MARKET PRICES AT THAT TIME WOULD WARRANT A HIGHER TAX. SANCHEZ SAID HE DECLINED TO ACCEPT THE COMPANY PROPOSAL AND SUGGESTED THAT THEY RESUME NEGOTIATIONS AFTER HIS RETURN FROM THE MEETING HELD IN PANAMA FOR THE FORMAL INAUGURATION OF THE UNION OF BANANA EXPORTING COUNTRIES. THEN, HURRICANE FIFI CAME ALONG, DESTROYING MOST OF THE HONDURAN CROP, THEREBY ALTERING THE BASIC ECONOMIC SITUATION IN WHICH NEGOTIATIONS WERE TAKING PLACE.

6. SANCHEZ NOW BELIEVES THAT A FIFTY-CENT PRICE IS FULLY LIMITED OFFICIAL USE
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JUSTIFIED. THE PRICE OF BANANAS IS ALREADY UP TO \$5.65 PER BOX IN THE US, AND HE BELIEVES THAT THE LOSS OF HONDURAN PRODUCTION COULD LEAD TO FURTHER INCREASES. MOREOVER, SANCHEZ OBSERVES AT THE PRESENT LEVEL OF PRICES IN THE US THE CURRENT TAX FORMULA WOULD REQUIRE A SEVENTY FIVE CENT TAX. THAT IS, THE COMPANIES ARE PAYING 25 CENTS PER BOX AT THE TIME OF EXPORTATION, AND BASED ON PRESENT MARKET PRICES IN THE US THEY WOULD HAVE TO PAY AN ADDITIONAL 50 CENTS AT THE END OF THE YEAR.

7. COMMENT: THE EMBASSY HAS FOR SOME TIME CONSIDERED IT UNLIKELY THAT THE GOCR WOULD AGREE TO THE HONDURAN FORMULA. IT IS UNOYRTUNATE THAT THE COMPANIES DID NOT ACCEPT SANCHEZ' EARLIER OFFER OF A TWO-YEAR ESCALATION FORMULA TO A FIFTY-CENT LEVEL, AND ARE NOW FACED WITH A PROPOSED IMMEDIATE IMPOSITION OF A FIFTY-CENT PER BOX TAX. COSTA RICA AND OTHER UBEC COUNTRIES MAY BE OVER-ESTIMATING THE SALUTARY EFFECTS OF HURRICANE FIFI ON WORLD BANANA PRICES. WE WOULD TEND TO FEAR THAT, IN THE INFLATIONARY CLIMATE NOW PREVAILING, THERE MIGHT BE A TENDENCY FOR THE AMERICAN HOUSEWIFE TO LEAVE THE BANANA OUT OF HER MARKET BASKET EVEN WITHOUT A PRICE INCREASE.

8. AS FOR THE BANANA COMPANIES, THEY MAY HAVE TO ACCEPT THE FIFTY-CENT TAX IF COSTA RICA INSISTS UPON IT AND IF OTHER PUEC COUNT-RIES DO THE SAME. AFTER ALL, COSTA RICA ENJOYS A FREIGHT ADV-ANTAGE OF CLOSE TO 50 CENTS PER BOX OVER BANANANAS FROM ECUADOR,R AND THE LOWER COST OF PRODUCTION IN ECUADOR WOULD BE OFFSET IN SUBSTANTIAL MEASURE BY THE HIGHER QUALITY OF COSTA RICAN BANANAS. IN SHORT, THE COMPANIES WILL NOT BE HAPPY WITH THE PROPOSED TAX, BUT PERHAPS THEY CAN LIVE WITH IT
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